

CITY OF SELAH
Yakima County, Washington
January 1, 1992 Through December 31, 1992

Schedule Of Findings

1. City Of Selah Internal Controls Should Be Improved

During this audit, we again noted problems with the city's internal controls, as follows:

- a. The city again did not properly reconcile cash and investments to their accounting system. As of December 31, 1992, the amount being held for the city by outside institutions was approximately \$126,000 less than the balance on the accounting system. We also noted that cash did not balance to the current records.
- b. We performed a detailed analysis of cash transactions posted to the accounting system in 1992 and noted numerous material coding and recording errors. The financial statements included in this report have been revised accordingly.
- c. Funds were allowed to operate with negative cash balances. Cash accounts are to be used to fund current expenditures. Money that isn't needed for immediate use is typically invested to maximize interest earnings. At December 31, 1992, of the 38 active funds, 15 had negative cash balances which, in total, exceeded \$504,000. We also noted one fund with a positive cash balance showing a negative investment balance.
- d. The city did not properly record investment acquisitions and liquidations.
- e. The city incorrectly allocated investment interest. A number of funds had a monetary interest in a common investment. The ratio used to distribute interest to the various funds was incorrect. In at least one case interest was credited to a fund with a negative investment balance. We could not determine the exact amount of improper distribution due to the condition of the records.
- f. Our audit of journal entries revealed the following concerns:
 - (1) Journal entries were prepared, approved, and input into the system by the same individual. The journal entry process should involve a segregation of duties to adequately reduce the risk of improper entries.
 - (2) Journal entries did not contain sufficient documentation to explain the nature and purpose of entries.
 - (3) Some journal entries were incomplete, resulting in one-sided entries to cash with no corresponding entry to revenue and expenditure accounts.
 - (4) There were numerous "in and out" entries for the same amount. These entries would often consist of multiples of the same number, sometimes combined within

other adjusting numbers.

(5) The general ledger would not always reference the specific journal entry document.

RCW 43.09.200 states in part:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction; all statements and reports made or required to be made, for the internal administration of the office to which they pertain

RCW 43.09.210 states in part:

All services rendered by . . . one department . . . shall be paid for at its true and full value by the department . . . receiving the same, and no department . . . shall benefit in any financial manner whatsoever by any appropriation or fund made for the support of another.

Failing to properly operate and maintain the accounting records results in an increased risk that errors or irregularities could occur and not be detected in a timely manner.

When control is not maintained over journal entries, the risk increases that material accounting errors and unauthorized journal entries may go undetected in the accounting system. This contributed to the city's inability to reconcile cash, impaired the process of preparing the city's financial statements, and significantly increased audit costs.

Funds with negative cash and investment balances benefit from other funds' investment earnings. Current methods violate state law and hinders management's ability to conduct city business in an efficient manner.

We consider the conditions noted to be material weaknesses in the city's accounting system.

We again recommend that city personnel improve the city's internal controls by ensuring that transactions are properly recorded and reconciled. We also recommend that the city discontinue allowing funds to operate with negative cash and investment balances. We further recommend for improved internal control procedures:

- a. Accounting reports reference the journal entry forms used to initiate entries.
- b. Journal entry forms contain enough documentation to adequately explain the nature and purpose of the entries.
- c. Journal entry forms be reviewed by a second party before input to the accounting system to help reduce the risk of errors and to assure proper approval of cash transfers between funds.

2. The City Of Selah Should Prepare Accurate Reports

During our audit, we again noted (as reported last year) missing and inaccurate information in the city's 1992 annual report which was filed with the Office of State Auditor. The following schedule was excluded from the annual report:

Schedule 16 Schedule of Financial Assistance

In addition, the following schedules were incomplete or otherwise inaccurate:

Schedule 8 Schedule of Real And Personal Property Taxes

Schedule 9 Schedule of Long-term Debt

Schedule 11 Schedule of Cash Activity

Schedule 12 Schedule of Investment Activity

Schedule 18 Schedule of Criminal Justice Expenditures

Schedule 9 included in this report, has been corrected.

RCW 43.09.230 states in part:

The state auditor shall require from every taxing district and other political subdivisions financial reports covering the full period of each fiscal year . . .

The reports shall contain accurate statements, in summarized form, of all collections made, or receipts received, by the officers from all sources; all accounts due the public treasury, but not collected; and all expenditures for every purpose, and by what authority authorized . . .

The city's 1992 annual report was not prepared accurately because of the inadequate condition of the accounting records (see finding within this report). The prior audit report also contained a finding on inaccuracies in the city's 1991 annual report.

Incomplete or inaccurate preparation of financial reports results in inadequate disclosure of the city's financial activities to the city council and the public, and significantly increases audit costs. The public's confidence in government requires accountability and accurate disclosure of relevant and accurate financial information.

We again recommend that city personnel take the necessary steps to ensure that future annual reports are prepared in accordance with the *Budgeting, Accounting and Reporting System* (BARS) manual procedures prescribed by the State Auditor.

3. The City Of Selah Should Comply With Budget Requirements

During our current audit we again noted (as reported last year) that funds incurred expenditures in excess of appropriations as follows:

<u>Fund</u>	<u>Amount</u>
110 City Street	\$34,372
118 Civic Center	3,591
130 Emergency Medical Services	4,521

RCW 35A.33.120 states in part:

. . . the expenditure of city funds or the incurring of current liabilities on behalf of the city shall be limited to the following:

(1) The total amount appropriated for each fund in the budget for the current fiscal year

RCW 35A.33.125 states in part:

The clerk shall issue no warrant and the city council or other authorized person shall approve no claim for an expenditure in excess of the total amount appropriated for any individual fund, except upon an order of a court of competent jurisdiction or for emergencies as provided in this chapter.

Expenditures exceeded appropriations because city officials considered the budgeted fund balance as authorization for additional expenditures. The budgets, therefore, were not amended properly.

Failure of the city to properly amend budgets is contrary to the statutory requirements cited and hinders the management of available public resources.

We again recommend that the city develop and implement a system of budget controls which will ensure compliance with budgetary requirements.

4. The City Of Selah Should Properly Account For Interfund Loans

On July 28, 1992, the city passed Ordinance No. 1060 which authorized the Contingency Reserve Fund to loan \$2,700 to the Current Expense Fund for the move and purchase of new office furniture for the Parks & Recreation administrative office. The ordinance specified that the loan was to be repaid at the rate of \$150.00 per month, with an interest rate of 3.25 percent.

For this loan, we noted the following concerns:

- a. The loan was not processed in a timely manner or for the authorized amount. Personnel waited until the goods were purchased by the lending fund. Then on September 15, 1992, they transferred the expenditure and \$2,399.47 in cash to the Current Expense Fund.
- b. Accounting records did not support the repayment of principal or interest to the lending fund.

The *Budgeting, Accounting and Reporting System* (BARS) manual, as promulgated by the State Auditor's Office, states the conditions of an interfund loan. The manual (Volume I, Part 3, Chapter 4, page 1) states in part:

1. The legislative body of a municipality must, by ordinance or resolution, approve all interfund loans, and provide in the authorization a planned schedule of repayment of the loan principal as well as setting a reasonable rate of interest (based on the external rate available to the municipality) to be paid to the lending fund.

Failing to pay principal and interest to the lending fund is a violation of state law and the City of Selah's ordinance. Improperly accounting for interfund loan transactions resulted in increased audit costs and overstated the cash balance of the Contingency Reserve Fund.

This occurred because the city's accounting staff did not effectively implement and monitor the necessary accounting entries to comply with the terms specified in the city's ordinance.

We recommend that the city pay principal and interest to the Contingency Reserve Fund from the Current Expense Fund according to the terms of city Ordinance No. 1060.